



*North Carolina*  
**State Health Plan**  
FOR TEACHERS AND STATE EMPLOYEES



## **Multi-Year Financial Model**

*Board of Trustees Meeting*

March 28, 2014

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*A Division of the Department of State Treasurer*

# Presentation Overview

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## Background

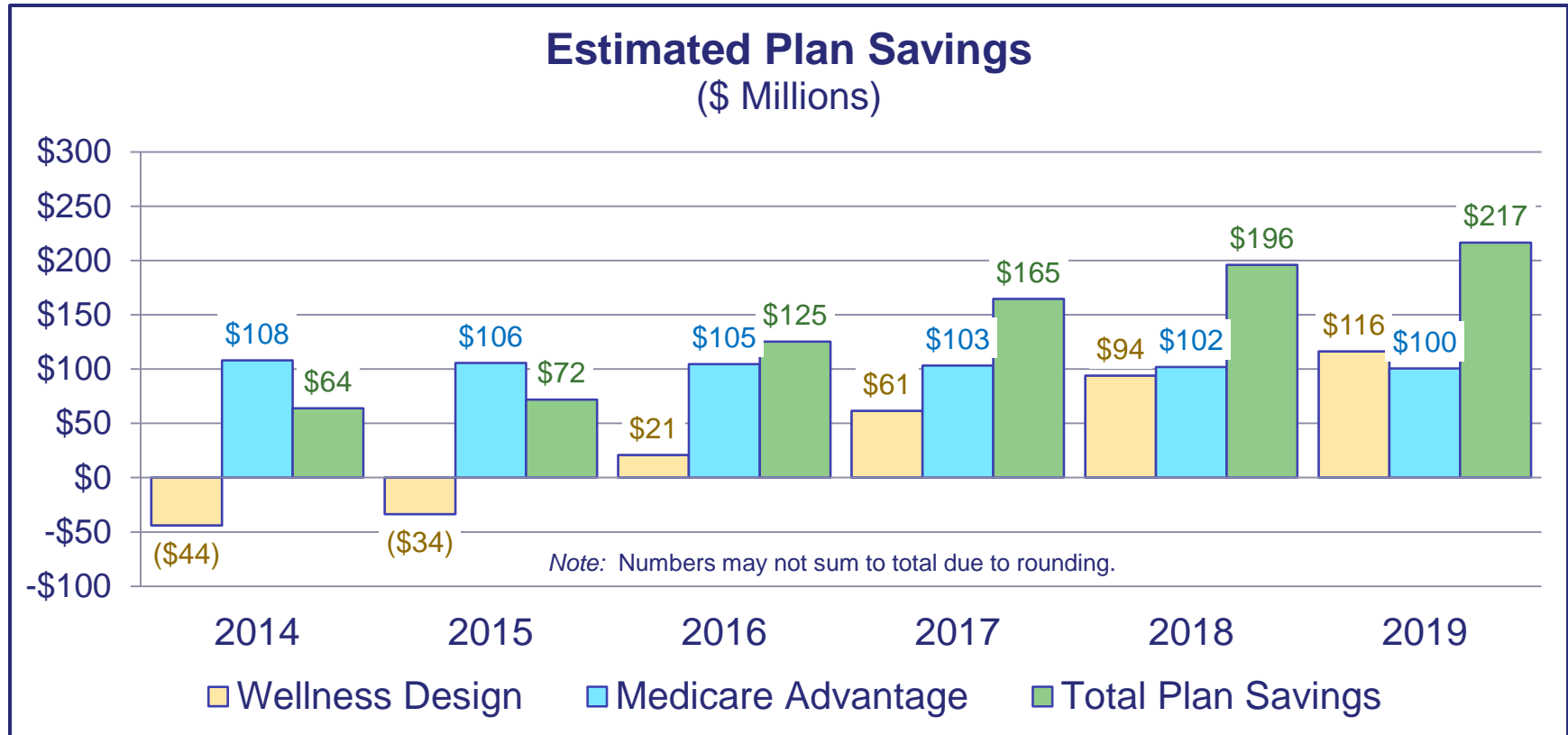
The multi-year financial model will be used as a scenario planning tool in support of the strategic plan development, specifically to support the development of goals.

## Agenda

- Progress to Date/Current Status
- Scenario Modeling
  - Review Updated Forecast Based on 2014 Benefit Changes
  - Scenario 1: Smoothed Premium Increases
  - Scenario 2: Reduce Base Premium Increases
  - Scenario 3: Reduce Long-Term Trend

# Progress to Date: Impact of 2014 Benefit Options

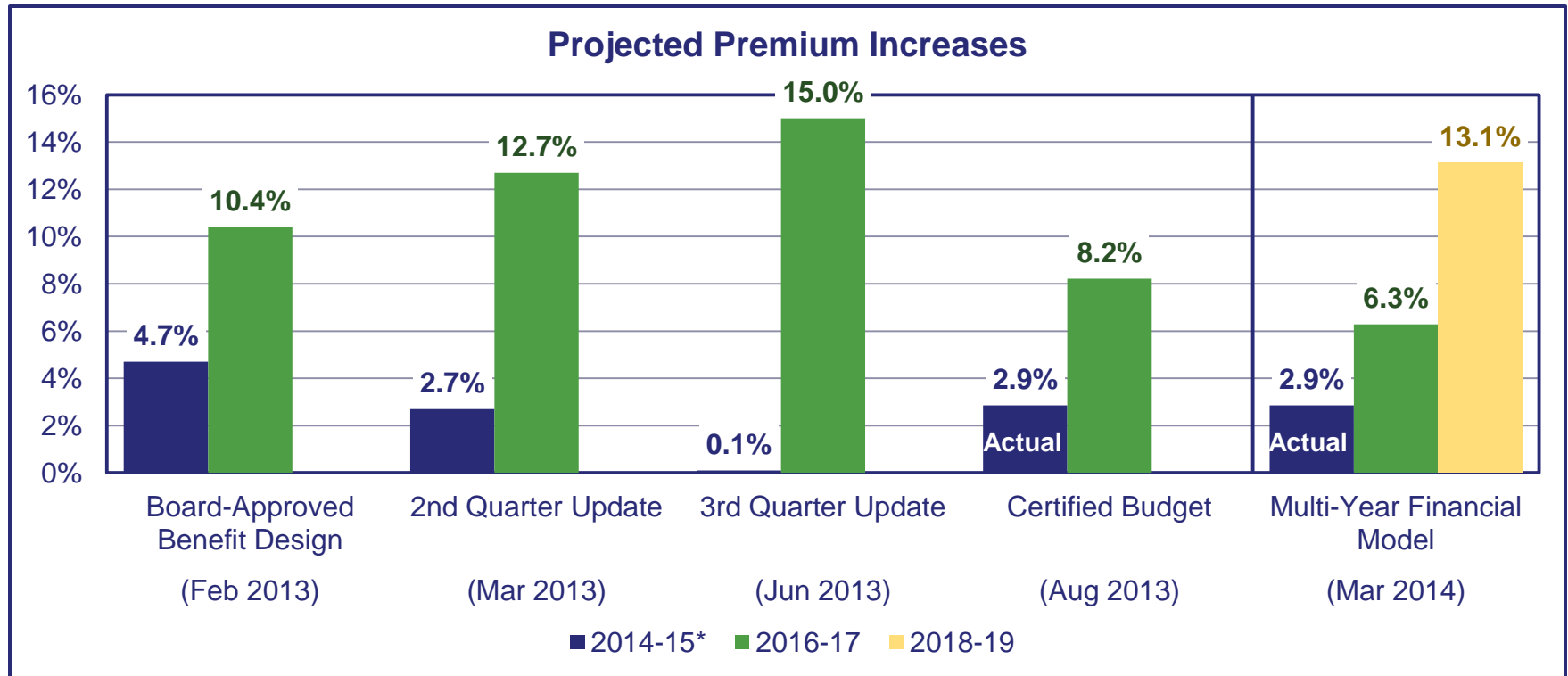
- Implementing 2014 benefit options and wellness initiatives is expected to result in a net savings to the Plan of approximately \$839 million from 2014 to 2019



Savings estimates based on Multi-Year Financial Model produced by Segal. The model incorporates results from the Fall 2013 open enrollment into the 2<sup>nd</sup> quarter update.

# Progress to Date: Premium Increases

- The Plan has outperformed projections in recent years, resulting in a higher cash balance and reduced estimates of premium increases in the near-term
- Based on current modeling assumptions, premium increases are estimated at 6.3% for 2016 and 2017 and 13.1% for 2018 and 2019



\*2.9% premium increases in Certified Budget and Multi-Year Financial Model represent average increases for January 2014 (3.57%) and 2015 (2.14%).

# Current Status: Forecast Through 2019

	Estimates for CY 2014-2015		Estimates for CY 2016-2017		Estimates for CY 2018-2019	
Forecast Model	PMPM Spending	12/31/15 Cash Balance	Annual Premium Increases	PMPM Spending	Annual Premium Increases	PMPM Spending
Certified Budget	\$383.94	\$527 m	8.22%	\$447.34	Not Estimated	Not Estimated
2 <sup>nd</sup> Quarter Update	\$380.22	\$714 m	5.55%	\$443.41	13.81%	\$518.97
Multi-Year Model: Q2 Update with Open Enrollment Results	\$381.35	\$687 m	6.28%	\$444.49	13.12%	\$519.56

# Scenario Planning

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Building scenarios through the Multi-Year Financial Model will guide the Board and SHP leadership team in answering the following **Key Questions**:

- Should the SHP establish financial goals as part of the strategic plan? Establish financial guardrails or parameters?
- If yes, what should be the SHP's primary financial goal?
  - Maintain stability in annual premium increases
  - Constrain annual increases in premiums
  - Constrain PMPM expense trends
  - Something else/other
- Who is the targeted beneficiary of the financial goal?
  - State/taxpayers
  - State Health Plan
  - Members

These questions will not be answered today but should be kept in mind as the scenarios are reviewed.

# Scenario 1: Stabilize Premium Rate Increases

	Estimates for CY 2014-2015		Estimates for CY 2016-2017		Estimates for CY 2018-2019	
Forecast Model	PMPM Spending	12/31/15 Cash Balance	Annual Premium Increases	PMPM Spending	Annual Premium Increases	PMPM Spending
Multi-Year Financial Model	\$381.35	\$687 m	6.28%	\$444.49	13.12%	\$519.56
<i>Scenario 1:</i> Smoothed Premium Increases	\$381.35	\$687 m	8.40%	\$444.49	8.40%	\$519.56

- Scenario 1 requires annual premium increases of 8.4% each January from 2016 to 2019 to balance to the Target Stabilization Reserve by December 2019
- Near-term premium increases would be higher and long-term premium increases would be lower
- Smoothing out premium increases does **not** affect the Plan's PMPM spending (i.e. estimated medical/pharmacy claims or administrative costs)

**Potential Consideration/Action:** Work with Legislature to secure additional employer funds for the short-term – and approve higher short-term premium rates – in order to maintain a cash balance that can be spent down over a longer timeline

# Scenario 2: Reduce Premium Rate Increases

Forecast Model	Estimates for CY 2016-2017			Estimates for CY 2018-2019		
	Annual Premium Increases	2016 PMPM Spending	2017 PMPM Spending	Annual Premium Increases	2018 PMPM Spending	2019 PMPM Spending
<i>Scenario 1</i>	8.40%	\$429.20	\$459.84	8.40%	\$502.91	\$536.27
<i>Scenario 2: Reduce Base Premium Rate Increases</i>	7.40%	\$424.92	\$451.25	7.40%	\$489.98	\$518.96

- Scenario 2 reduces the four-year base premium increase of 8.4% by 1 percentage point
- Reducing annual premium increases would require the Plan to decrease spending (modeled in PMPM Spending numbers above)
  - **or** bring in additional revenue from sources not tied to base premium increases

**Potential Consideration/Action:** A decrease of \$342.4 million in total projected Plan spending would need to be achieved between now and the start of 2020 to achieve the reduction in premium rate increases. Initiatives and programs that will result in reduced costs would have to be implemented to achieve the goal.



# Scenario 3: Reduce Long-Term Trend

	Estimates for CY 2016-2017			Estimates for CY 2018-2019		
Forecast Model	Annual Premium Increases	2016 PMPM Spending	2017 PMPM Spending	Annual Premium Increases	2018 PMPM Spending	2019 PMPM Spending
<i>Scenario 1</i>	8.40%	\$429.20	\$459.84	8.40%	\$502.91	\$536.27
<i>Scenario 3: Reduce Long-Term Trend</i>	7.98%	\$429.20	\$459.84	7.98%	<b>\$498.06</b>	<b>\$523.36</b>

- Scenario 3 reduces trend from 8.5% to 7.5% in 2018 and to 7.0% in 2019
- With the reduced trend assumptions, annual premium increases decrease to 7.98%
- Successfully reducing trend has the potential for significant long-term savings

**Potential Consideration/Action:** Reduce projected spending by \$38.7 million in 2018 and by \$102.1 million in 2019. Initiatives and programs that will result in reduced costs would have to be implemented to achieve the goal.

# Next Steps: Potential Actions to Achieve the Goal

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## Key Questions

- Should the Plan establish financial goals as part of the strategic plan?
- If yes, what is the primary financial goal?
- Who is the targeted financial beneficiary of the financial goal?

## Knowing the goal will help to determine the strategies

- Alternative provider payment methods
- Targeted disease and case management
- Medical management/specialty pharmacy management
- Member cost-sharing/cost-shifting
- Member incentives
- Limited network/formulary
- Premium structure/wellness premiums/incentives
- Premium pricing
- Spending cash reserves

## Considerations

- How will the strategy drive change?
- Who is impacted?
- What are the risks?
- How quickly will the strategy affect change?
- What is the expected magnitude of the change?